Peer-reviewed and Open access journal
ISSN: 1804-5006 | www.academicpublishingplatforms.com
The primary version of the journal is the on-line version

BEH - Business and Economic Horizons
Volume 13 | Issue 3 | 2017 | pp.357-367
DOI: http://dx.doi.org/10.15208/beh.2017.26

Corporate governance reform and risk management disclosures: Evidence from Nigeria

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Abstract:

The purpose of this study is to examine the disclosure intensity of risk management practices of listed financial service firms in Nigeria after the Corporate Governance (CG) reform in the year 2011. In the quest to achieve the objective of this study, content analysis of the annual reports of 45 sampled firms spanning from the year 2012 to 2015 was carried out. The study finds that there is a significant disclosure of risk management practices of the sampled firms, especially in relation to their risk management committee structure and its responsibility, risk management policies, audit committee availability and function, and capital/market risks. The sample firms remain reluctant in the disclosure of their environmental risk and operational risks. Moreover, there is no significant difference between banks and nonbanks in the disclosure of their risk management practices, signifying a strong adherence to the 2011 reformed CG code in Nigeria.

JEL Classifications: G3; G32

Keywords: Corporate governance reform, risk management disclosure, risk management practices, financial service firms, Nigerian corporate governance code

Citation: Mahmud Kakanda, M., Salim, B., Chandren, S. (2017). Corporate governance reform and risk management disclosures: evidence from Nigeria. *Business and Economic Horizons,* 13(3), 357-367, http://dx.doi.org/10.15208/beh.2017.26

1. Introduction

Disclosures of corporate risk management have recently become an issue of great concern to various stakeholders in both developed and emerging economies. To this end, Carlon, Loftus, & Miller (2003) stress that the requirement for an improved financial reporting of risk by the regulators and users of financial reports stemmed from financial distress in the late 1980s and 1990s (for instance, dot-com bubble in 1997 in East Asia) and corporate catastrophes in the 21st century (for instance, the cases of Enron, WorldCom, and Parmalat). In common, pressures from professional bodies also illustrate an evidence of the need for transparent and narrative annual reports. For instance, after the post-credit crisis period, the Institute of Chartered Accountants in England and Wales (ICAEW, 2011) proposes the need for a more transparent annual report of companies that will provide information on risk management that would be beneficial to the various users of accounting information when making decisions.

Similarly, "In December 2001, the five largest accounting firms sent a petition, endorsed by the American Institute of Certified Public Accountants, to the Securities and Exchange Commission urging enhanced disclosures to provide more transparency concerning certain risks that affect public companies" (Carlon et al. 2003, p.36). To this effect, Abraham & Shrives (2014) suggest that inadequate corporate disclosures have a significant effect on the investor's ability in evaluating public companies and the risks associated with them. Even though there is no consensus on the extent and manner of communicating risk management by corporations, but there is general agreement on the need to have an effective risk management disclosure (Buckby, Gallery, & Ma, 2015).

In essence, the OECD (2015) reports that companies that have complex or huge risks (both financial and otherwise), should provide a familiar reporting system, involving direct reporting of risk management to the board of directors who are acting on behalf of shareholders. More importantly, the shareholders of corporations are entitled to be furnished sufficiently about the extraordinary and periodic information disclosure on activities of a company (IFC, 2010). The disclosure is usually in the annual accounts and reports of companies that serve as a medium of communication between the company (management) and stakeholders for their decision-making (Amran, Manaf Rosli, & Che Haat Mohd Hassan, 2008). Likewise, annual reports of companies are a dependable medium for shareholders and other stakeholders to assess information on a firm's risk management practices (Holland, 1998; Lang & Lundholm, 1993; Wong, 2012).

However, risk management involves identifying, analyzing, and control of all related risks which may likely threaten a firm's resources, assets, or its earnings capacity (Badriyah, Sari, & Basri, 2015; Chatterjee & Bose, 2007). Its aim is targeted towards maximizing shareholders' wealth alongside a sustainable value of a firm (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2009; OECD, 2014). Consequently, risk management is considered as one of the major facets of corporate governance, especially in the instance of financial institutions (Karatzias, 2011). Coherently, Karatzias further stresses that various financial institutions internationally do not longer exist, have been taken over, or merged due to their neglect of rudimentary guidelines of risk management and control. Consequently, the inadequate disclosures of corporate activities, corporate governance practices, and risk management practices, have a significant effect on the investor's ability in evaluating public companies and its associated risks (Abraham & Shrives, 2014).

Howbeit, Ironkwe & Adee (2014), Kakanda, Salim, & Chandren (2017), and Mmadu (2013) emphasized that the matter of corporate bankruptcy and its links with weak corporate governance that drives to ill performance is likewise experienced in Nigeria which posts doubt on the potency of the Nigerian Corporate Governance Code (NCCG) of the year 2003. Pertinent to mention, Sanusi (2010) argues that the major factor that significantly contributes to the financial crisis in the Nigerian economy is the presence of a weak corporate governance surrounded by inadequate disclosure and transparency in reporting, inadequate risk management frameworks for identifying, measuring and controlling the risks associated with the activities of deposit money banks (DMBs) and other financial institutions among others which placed them (financial service firms) to be operating at the risk of failure. For this reason, the Securities and Exchange Commission (SEC) reformed the erstwhile NCCG 2003 and issued a new NCCG 2011 which requires all publicly traded companies in Nigeria to make adequate disclosures of risk management practices in their annual reports (Kakanda et al. 2017).

Therefore, the purpose of this study is to examine the extent of disclosing risk management practices by the quoted financial service firms in Nigeria based on the requirements of the NCCG 2011. The study also seeks to investigate the significant difference in terms of risk management disclosure between the group of firms in the Nigerian financial institution.

2. Literature review

Risk connotes a situation where one (individual or business) is exposed to danger, injury, or loss instigated by internal and/or external vulnerabilities. It can also be a mixture of the probability of a perilous event that may lead to a possible loss or unwanted result

(Hubbard, 2014). In the link to business, a risk may be referring to the probability of the actual return on investments to deviate from the expected return. Risk can be in form of liquidity risk, interest rate risk, exchange rate risk, capital market risk, environmental risk and any other risk surrounding a business unit. Managing such risks become inevitable and should be an unceasing process throughout an organization's strategy. Hence, risk management encompasses identifying, evaluating, and controlling of risk and it related activities that may have threat on various companies' events (Badriya et al. 2015; COSO, 2009). Whereas, risk management disclosure is the act of revealing information on risk and its management processes being it statutory or voluntary via the published annual accounts and reports of a company. The essence of this disclosure is to boost the confidence of stakeholders in the company's ability in recognizing, evaluating, and controlling of its risks accordingly (Wong, 2012; COSO, 2009; NCCG, 2011).

Empirically, Buckby et al. (2015) examined "how listed Australian Companies disclose risk management information in annual report governance statements in accordance with the Australian Securities Exchange (ASX) corporate governance framework". The study finds that there is an extensive deviation by companies in the disclosure practices and less conformity with principle 7 of the Australian principles and recommendations of corporate governance. This means that there is less disclosure by firms regarding "material business risk".

Furthermore, Abraham & Shrive (2014) undertook a study to explain how best to enhance reporting of risk factors by publicly traded companies using 4 companies in food production and processing sector listed on Northcote. To determine how disclosures of risk changed over time, the annual reports and accounts of the sampled firms from 2002 to 2007 are utilized by the study using content analysis. The finding from the study indicates that disclosures made by companies seem to be less or not related to the actual risk facing the companies, that is it can be regarded as "symbolic window dressing". Symbolic disclosures remain unlikely to provide useful information to users of financial reports who may like to make decisions regarding their investments alongside their risk appetite.

Coherently, Said Mokhtar & Mellet (2013) document that there is a low extent of voluntary risk reporting in Egypt. Their finding also shows that the risk reporting distillates more on backwards-looking and qualitative risk disclosure and forward-looking and quantitative risk disclosure. The authors utilized data from the annual reports of 105 quoted firms in Egypt for the year 2007 through unweighted disclosure index based on Egyptian Accounting Standards (EAS) 25 to measure mandatory risk disclosure and using content analysis-sentence approach to measure voluntary risk disclosure. Equally important, an exploratory study on risk reporting has been conducted by Amran et al. (2008). Their study identifies that there is no adequate disclosure of risk management by Malaysian companies. Annual reports of 100 listed companies in Bursa Malaysia are used as the sample, and content analysis was used to determine the level of risk management disclosure by the sample firms for the year 2005.

Moreover, Lajili & Zéghal (2005) analysed the extent of disclosing risk management in the annual reports of TSE 300 companies in Canada. The authors employed content analysis and their result portrays that there is a high magnitude of both voluntary and mandatory risk management disclosures intensity. On the other hand, after analysing various responses of institutional investors' attitudes relating to their investment portfolios in the UK, Solomon, Solomon, Norton, & Joseph (2000) found that the respondents (institutional investors) do not support a controlled environment for a universal statement of business risk or corporate risk disclosure. The authors also found that increased risk disclosure would assist institutional investors in making decisions on their investment portfolios.

In the U.S, Linsmeier, Thornton, Venkatachalam, & Welker (2002) use nonfinancial companies as a sample to examine the risk disclosure setting after the Securities and Exchange Commission (SEC) has issued "Financial Reporting Release No. 48 (FRR No.48)", mandating "forward-looking" quantitative corporate risk disclosures. They proclaim that the FRR No. 48 for risk management disclosure has provided an indispensable information for investors' decisions making since after the SEC's mandate

(FRR No.48), there was a decline in investors' uncertainty alongside trading volume sensitivity to the disparities in energy prices, stock prices, and exchange rates. This indicates that disclosure of corporate risk management has paved the way for reducing market as well as environmental uncertainties.

Similarly, using a sample of 85 listed nonfinancial companies in Italy, Beretta & Bozzolan (2004) recommend a framework for analysing risk communication and developed an index to evaluate the quality of risk disclosure. Their study documents that companies generally dodge communicating the expected influence of the 75 identified risk items in their quantitative terms and the economic focus of the companies. More from this, the companies remain remiss in showcasing their past and present risks, and how future risks disclosed may influence their operations.

In Nigeria, Dabari & Saidin (2015) whose study aimed at investigating the level of implementing Enterprise Risk Management (ERM) in the Nigerian banking industry find that ERM is implemented by banks in Nigeria, but yet to be implemented by some. Data for the study was collected from 722 managers from 361 branches and headquarters of the 21 banks in Nigeria, and the logistic regression model was utilized for data analysis.

3. Methodology

This study examined the extent of risk management disclosures within the annual reports for a sample of Nigerian financial firms. The sample involved 45 (that have the available data required for this study) out of the 55 listed financial service firms listed on the Nigerian Stock Exchange (NSE) spanning from 2012 to 2015. Financial service firms were selected because of the uniqueness of their operations and the laws governing them (for instance, having the same accounting year-end as 31st December), combined with the pivotal role they play in terms of economic growth and development and in wealth maximization. For the purpose of this study, listed financial service firms are divided into 2: Banks (that is, Deposit Money Banks [DMBs], that accept deposits from the general public and engage in purely commercial banking) and Nonbanks (for instance, insurance companies, mortgage companies, thrift institutions etc., that do not offer purely commercial banking).

TABLE 1. CATEGORIES OF RISK MANAGEMENT DISCLOSURE

S/N	Risk item category	Code	Explanation
1	Governance structure related to risk management.	RMPD1	Risk management committee availability.
2	Risk management committee responsibility and function.	RMPD2	Explanation of responsibilities and functions of risk management committee.
3	Risk management policies and objectives	RMPD3	Availability of explanations on the descriptions of risk management policies and objectives of the firms.
4	Audit committee responsibility and function	RMPD4	Availability of audit committee structure and explanations to their responsibility.
5	Capital/Market risks	RMPD5	Disclosures of risk on the interest rate, foreign exchange rate, stocks, liquidity, and credit.
6	Environmental risks	RMPD6	Disclosures on health and safety, erosion of brand name and corporate social responsibility.
7	Operational risks	RMPD7	Customer satisfaction, product development, sourcing, product and service failure, stock obsolescence and shrinkage.

Source: Adapted from Kakanda et al. (2017).

Note: RMPD = Disclosure of Risk Management Practice.

For content analysis of risk and risk management disclosures within the annual reports of companies, numerous methods have been applied to previous studies. For instance, Deegan, Rankin, & Voght (2000), Elshandidy, Fraser, & Hussainey (2013), Elshandidy & Neri (2015), Hackston & Milne (1996), and Linsley & Shrives (2005) used quantitative content analysis by counting the number of sentence, word or pages to examine disclosures made in annual reports of companies. Notwithstanding, content analysis is not limited to the counting of words alone but extends to categorizing and coding of data (Kakanda et al. 2017; Stemler, 2001) as used by other researchers like Abraham & Shrives (2014) and Wong (2012). Therefore, this study adapted the categorizing analysis approach for risk management disclosure index developed by Kakanda et al. (2017), where the risk categories are based on the requirements of the NCCG 2011. In this regard, each category is coded as "0" if no disclosure and "1" if fully disclosed. For analysis purpose, descriptive statistics vis-à-vis frequency distribution and t-test were employed using STATA version 14. Therefrom, the categories of risk management disclosure used in this study are presented in Table 1.

4. Discussion of results

The result from Table 2 depicts that the sample of banks has a total of 15 (60 firm-year observations) which is 33.33% of the total sample in the study. Whereas, the highest frequency of 30 goes to nonbanks (120 firm-year observations) which is 66.67% of the total sample. This indicates that nonbanks are the dominance in the listed financial service firms in the NSE. Meanwhile, the total sample in this study is 45 companies with 180 firm-year observations. The analysis of the risk categories was carried out from the annual reports of the said sample and the results are presented in the subsequent tables.

TABLE 2. SAMPLE DISTRIBUTION

S/N	Company type	Frequency	Observations	Percent (%)	Cumulative (%)
1	Banks	15	60	33.33	33.33
2	Nonbanks	30	120	66.67	100
	Total	45	180	100	

Source: Sample extracted by the authors from the Nigerian Stock Exchange.

TABLE 3. DISCLOSURE INTENSITY OF RISK MANAGEMENT CATEGORIES (FULL SAMPLE)

Code of risk item category	Disclosure		No disclosure		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
RMPD1	180	100.00%	0	0.00%	180	100.00%
RMPD2	180	100.00%	0	0.00%	180	100.00%
RMPD3	119	66.11%	61	33.89%	180	100.00%
RMPD4	180	100.00%	0	0.00%	180	100.00%
RMPD5	116	64.44%	64	35.56%	180	100.00%
RMPD6	90	50.00%	90	50.00%	180	100.00%
RMPD7	82	45.56%	98	54.44%	180	100.00%

Source: Authors' analysis.

It has become apparent that there is full disclosure of risk management practice in regards to RMPD1 and RMPD2 as delineated in Table 3. The total frequency for RMPD1 and RMPD2 is 180(100%) each. Meaning that the sample firms have fully provided information on the availability of their risk management committee (RMPD1) and full disclosures are also furnished on the responsibilities and functions of the risk management committee (RMPD2). Concerning RMPD3, the result shows that *disclosure* has frequency of 119(66.11%) while *no disclosure* is 61(33.89%), indicating that there is adequate disclosure of the risk management policies and objectives of the firms, even though there is significant number of *no disclosure* (61), but still lower than *disclosure* (116). On the other hand, RMPD4 has a frequency of 180(100.00%), that is full disclosure has been made on the structure and responsibility of the audit committees of each firm. To RMPD5, the frequency of *disclosure* is 116(64.44%), while *no disclosure* is 64(35.56%), indicating a significant risks disclosure by the firms on interest rates, foreign exchange rates, stocks, liquidity, and market. However, RMPD6 has a frequency of 90(50.00%) for *disclosure* and 90(50%) for *no disclosure*. This indicates that some of the financial service firms in Nigeria are reluctant in disclosing information on their environmental risks which involve; health and safety, erosion of brand name, and corporate social responsibility. The result also indicates that RMPD7 has a frequency of 82(45.56%) for *disclosure* and 98(54.44%) for *no disclosure*. This portrays that there is less disclosure on the sample firms' operational risks that include; customer satisfaction, product development, sourcing, service failure, stock obsolescence and shrinkage.

TABLE 4. ANNUAL DISCLOSURE INTENSITY OF RISK MANAGEMENT CATEGORIES

Code of risk item category	Year 2012		Year 2013		Year 2014		Year 2015		Summation	
	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)	F/(%)
RMPD1	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	180(100)	0(0)
RMPD2	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	180(100)	0(0)
RMPD3	14(31)	31(69)	32(71)	13(29)	31(69)	14(31)	42(93)	3(7)	119(66)	61(34)
RMPD4	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	45(100)	180(100)	0(0)
RMPD5	22(49)	23(51)	26(58)	19(42)	27(60)	18(40)	41(91)	4(9)	116(64)	64(36)
RMPD6	15(33)	30(67)	20(44)	25(56)	21(47)	24(53)	34(76)	11(24)	90(50)	90(50)
RMPD7	3(7)	42(93)	24(53)	21(47)	26(58)	19(42)	29(64)	16(36)	82(46)	98(54)

Source: Authors' analysis.

Note: F=Requency and values in parenthesis ( ) are percentage (%) rounded to whole numbers.

Based on the result of annual disclosure intensity of risk management categories in Table 4, information on the availability of risk management committee (RMPD1) and the responsibilities and functions of the risk management committee (RMPD2) have been fully disclosed from the year 2012 to 2015, indicating strict adherence to the requirements of the NCCG 2011 regarding these items of risk management category. On the risk management policies and objectives of the firms (RMPD3), the NCCG 2011 implementation year (2012) has less *disclosure* 14(31%) and a high *no disclosure* 31(69%). But in the following year (2013) up to the year, 2015 disclosures on RMPD3 continue moving at an increasing rate in favour of *disclosure* which has a summation of 119(66%) against *no disclosure* with 61(34%). There was full disclosure by the sampled firms regarding audit structure availability and their responsibilities (RMPD4) having 45(100%) constantly from the year 2012 to 2015. For disclosures on RMPD5, the year 2012 has a score of 22(49%) for *disclosure* and 23(51%) for *no disclosure*, signifying a lower disclosure on interest rates risk, foreign exchange rates risk, stocks risk, liquidity risk, and market risk. However, there was an increase in the *disclosure* of RMPD5 in the year 2013 to a frequency of 26(58%) and *no disclosure* to 19(44%). The increase in the *disclosure* of RMPD5 continues up to the year

2015 41(91%) and *no disclosure* 4(9%) while the total for *disclosure* stood at 116(64%) and *no disclosure* 64(36%).

Nevertheless, the result from Table 4 shows that there has been lower disclosure concerning environmental risks (for instance, health and safety, erosion of brand name, and corporate social responsibility) (RMPD6) with *disclosure* scores of 15(33%), 20(44%), 21(47%) and *no disclosure* 30(67%), 25(56%), and 24(53%) for year 2012, 2013, and 2014 respectively. While *the disclosure* has it highest score in the year 2015 34(76%) dominating *no disclosure* having 11(24%). But the overall score shows a 50/50 between *disclosure* 90(50%) and *no disclosure* 90(50%) of RMPD6. Considering the operational risks (customer satisfaction, product development, sourcing, service failure, stock obsolescence and shrinkage) (RMPD7) of the sample firms, the result from Table IV shows that there was a significant lower *disclosure* in the year 2012 3(7%) dominated by *no disclosure* 42(93%). In the subsequent years till 2015, the *disclosure* of information on RMPD7 has significantly dominated *no disclosure*. But on the overall score, *no disclosure* 98(54%) has dominated *disclosure* 82(46%). Despite the appearance of *no disclosure* on the items of risk management category, yet, the result indicates that there is significant disclosure of risk management practice of listed financial service firms in Nigeria, signifying a strong adherence to the requirements of the NCCG 2011.

TABLE 5. DISCLOSURE INTENSITY OF RISK MANAGEMENT CATEGORIES (BY FIRM TYPE)

Code of risk category	Banks		Nonbanks		Total	
	Disclosure	*No disclosure*	*Disclosure*	*No disclosure*		
	Freq./(Perc.)	Freq./(Perc.)	Freq./(Perc.)	Freq./(Perc.)	Frequency	Percentage
RMPD1	60(100%)	0(0.00%)	120(100%)	0(0.00%)	180	100%
RMPD2	60(100%)	0(0.00%)	120(100%)	0(0.00%)	180	100%
RMPD3	41(68.33%)	19(31.67%)	78(65.00%)	42(35.00%)	180	100%
RMPD4	60(100%)	0(0.00%)	120(100%)	0(0.00%)	180	100%
RMPD5	44(73.33%)	16(26.67%)	72(60.00%)	48(40.00%)	180	100%
RMPD6	34(56.67)	26(43.33%)	56(46.67%)	64(53.33%)	180	100%
RMPD7	30(50.00%)	30(50.00%)	52(43.33%)	68(56.67%)	180	100%

Source: Authors' analysis.

Table 5 presents the result of disclosure intensity of risk management categories for banks and nonbanks. As obtained under both the full sample and yearly analysis of disclosure, information on RMPD1 (risk management committee availability) and RMPD2 (responsibilities and functions of risk management committee) are also fully disclosed under banks and nonbanks. For RMPD3 under banks, it has a *disclosure* score of 41(68.33%) and *no disclosure* score of 19(31.67%), while under nonbanks, it has a *disclosure* of 78(65%) and *no disclosure* of 42(35%), showing a serious adherence to the requirements of the NCCG 2011. More so, there was a full *disclosure* on the structure and responsibility of the audit committees (RMPD4) of both banks 60(100%) and nonbanks 120(100%).

Whereas the *disclosure* 44(73.33%) on capital/market risks (interest rates, foreign exchange rates, stocks, liquidity, and market) (RMPD5) under banks has dominated *no disclosure* 16(43.33%). While under nonbanks, *disclosure* has a score of 72(60%) and *no disclosure* has a value of 48(40%), indicating adequate disclosure. Information on environmental risks (health and safety, erosion of brand name, and corporate social responsibility) (RMPD6) under banks has a *disclosure* score of 34(56.67%) surpassing *no disclosure* that its frequency stood at 26(43.33%). Contrastingly, RMPD6 under nonbanks has a *disclosure* with lower score 56(46.67%) compared to *no disclosure* 64(53.33). This reveals that nonbanks remain reluctant in disclosing information on their environmental risks. For the last risk management category (RMPD7) which is on operational risks (customer satisfaction, product development, sourcing, service failure, stock obsolescence and shrinkage) has a *disclosure* score of 30(50%) and *no disclosure* of 30(50%) under banks, pinpointing a moderate disclosure of RMPD7. At the same time, the *disclosure* of RMPD7 has a value of 52(43.33%) and *no disclosure* with 68(56.67%) under nonbanks. This is a specification that nonbanks disclosed less information on their operational risks compared to banks in Nigeria.

TABLE 6. GROUP COMPARISONS BETWEEN BANKS AND NONBANKS USING T-TEST

Code of risk item category	Banks Mean	Nonbanks Mean	t-test t-value	t-test p-value
RMPD1	1.00	1.00	-	-
RMPD2	1.00	1.00	-	-
RMPD3	0.683	0.650	0.443	0.658
RMPD4	1.00	1.00	-	-
RMPD5	0.733	0.600	1.767	0.079
RMPD6	0.567	0.467	1.264	0.208
RMPD7	0.500	0.433	0.844	0.400
N	15	30	-	-
Observations	60	120	-	-

Source: Authors' analysis.

For the purpose of group comparisons between banks and nonbanks, a t-test was employed using STATA version 14. The result of t-test from Table 6 specifies that RMPD1, RMPD2, and RMPD4 have no t-values and p-values because disclosures for the affected items of risk management category has been fully made by both the two groups of firms (banks and nonbanks) during the period under review. This is also evidenced as shown by their mean values of 1.00 each. More importantly, the result of t-test from Table VI portrays that there is no significant difference between banks and nonbanks in the disclosure of their risk management practices since none of the risk item category (RMPD3, RMPD5, RMPD6, and RMPD7) has a $p<0.05$ (the threshold). This is a sign that listed financial service firms are strictly adhering to the requirement of the NCCG 2011 and striving to *leave no stone unturned* in ensuring that information on their risks management is adequately disclosed for the various stakeholders' consumption.

Generally, the results of analysis from this study have shown that listed financial service firms in Nigeria unequivocally made full disclosures on their risk management committee availability (RMPD1), responsibilities and functions of the risk management committee (RMPD2), and availability of audit structure and responsibilities (RMPD4). However, significant disclosures were made on the risk management policies and objectives of the firms (RMPD3) and capital/market risks (interest rate, foreign exchange rate etc.) (RMPD5) which in corroboration with the findings of Linsley & Shrives (2005). Whereas, there was an average disclosure on the environmental risks (health and safety, erosion of brand name, corporate social responsibility) (RMPD6), disclosure on operational risks (customer satisfaction, service failure, stock obsolescence and shrinkage etc.) remain low by the listed financial service firms in Nigeria which is inconsistent with the findings of Amran et al. (2008) that found operational risk to be highly disclosed by Malaysian firms.

Howbeit, despite the significant magnitude of risk management disclosure by the listed financial service firms in Nigeria, yet, lower disclosures and no disclosures are identified in some of the items of risk management category (for instance, RMPD6 and RMPD7). Quite important to note, the lack of disclosures may stem from the fact that information disclosure consumes higher cost to corporate entities. For instance, if not because of introducing the Electronic Data Gathering, Analysis and Retrieval (EDGAR) information system (used by the US Securities and Exchange Commission), a total amount of

$0.15/page is being spent daily by the US companies on information disclosure involving 3 million pages daily (Bethel, 2007). Hence, it may be that some information on the categories of risk management practices were not disclosed by the sampled firms in this study since some of the companies may be in favorable condition (having a higher profitability) to disclose information, others may not (that is they are having lower profitability or even suffering from loss incurred).

5. Conclusion

The purpose of this study is to examine the extent of risk management disclosures in the annual reports of listed financial service firms in Nigeria based on the requirements of the NCCG 2011 and also to find the significant difference in terms of risk management disclosure between the group of firms in the Nigerian financial institution. The study utilized risk item category developed by Kakanda et al. (2017) in evaluating the magnitude of risk management disclosure by the sampled firms in this study. From the descriptive results obtained, the study finds that there is a high disclosure intensity of risk management practice by the sampled firms, signifying a strong adherence to the requirements of the NCCG 2011, even though surrounded by lack of disclosures in some items of risk category like environmental risks and operational risks. After scanning the group comparisons in terms of risk disclosure between banks and nonbanks, it was found that there is no significant difference between the two groups of firms (banks and nonbanks) on the disclosure of their risk management practices.

Based on the aforementioned findings, the study suggests that the regulatory authorities in Nigeria should develop other means in ensuring that publicly trading firms are significantly involved in disclosing their risk management practices especially on environmental risks and operational risks. In this case, management staff and the general public can have a better decision on specific environmental issues and alleviate possible operational and environmental risks. Additionally, disclosure of such information may lessen pollution emissions through creation of competition amongst various firms. Albeit, corporates' annual reports have been agreed as the best means of communicating with several stakeholders, but in order to reduce costs of disclosure that may evenly increase information disclosure, the risk management practices can be published on the firms' websites exclusively and separately from the annual reports. Consequently, it may aid in costs saving (costs of printing) as well as saving the longer time of producing complete annual reports and accounts of which the risk management practices of firms happens to be a sub-heading in it. With this, information on risk management practice of a firm will be readily available to various users of the required information at the best possible time.

However, regardless of the contribution of this study in providing the disclosure intensity of risk management practices of listed financial service firms in Nigeria which can be used by numerous stakeholders to the firms, still, the study did not provide evidence on the aggregate disclosures of the items of risk category on panel basis (that is amassing disclosures by both units and time periods) that will assist in ascertaining the extent of disclosure on either *weak disclosure*, *moderate disclosure*, *strong disclosure*, or *very strong disclosure*. Moreover, the study pays less attention in demonstrating the mechanisms of corporate governance that may influence the disclosure of risk management practices. For these reasons, future studies can explore the relationship between the mechanisms of corporate governance and risk management disclosure either singularly or on a panel basis. Further, the impact of risk management disclosure on firm performance can be examined by future studies. As a promising area of research, risk management committee structure (size, meetings, composition, financial knowledge) can also be linked with firm performance. Lastly, future studies can conduct a similar research in the nonfinancial sector of the Nigerian economy or other economies.

Acknowledgement

The authors would like to acknowledge Othman Yeop Abdullah (OYA) Graduate School of Business, University Utara Malaysia (UUM) Sintok, Kedah, Darul-Aman, Malaysia for financing this research work.

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